responsible for these shifts in attitudes, the appeal of advance buying as a means to cope with inflation, nonetheless, is still viewed with favor. In 1981, the proportion of all families that had a favorable opinion of buy-in-advance price rationales rose to 31 percent, from 25 percent in 1979.

TABLE B

CONSUMER REACTIONS TO INFLATION

	To Make Major Purchases Given Their Current Situation...				In Times of Rapid Inflation...					
	Okay to Use Savings		Okay to Use Credit		Bad Idea to Save		Better to Borrow		Favor Advance Buying	
	1979	1981	1979	1981	1979	1981	1979	1981	1979	1981
All families	35%	29%	17%	13%	23%	19%	16%	15%	25%	31%
Family Income										
Less than $14,999	33	22	14	14	17	16	9	12	26	31
$15,000-24,999	40	29	26	9	25	19	17	14	25	35
$25,000 or more	43	27	24	20	35	29	29	23	24	30

The questions were: "If there were a major purchase that you wanted to make, do you think that now is a time when it would be O.K. to use some of your savings, or is now a time when you would be especially reluctant to use some of your savings?"

"If there were something big that you wanted to buy, do you think that now is a time when it would be O.K. for you to buy it on credit, or is now a time when you would be especially reluctant to take on new debt?"

"Generally speaking, in times of inflation do you think increasing your savings as much as possible is a good idea or a bad idea?"

"Some people say that in times of inflation it's better to borrow as much as possible while others think that people should avoid borrowing. What do you think?"

"Should people buy large things such as houses, cars, appliances, or furniture before they are really needed to avoid higher prices in the future?

Business Conditions

When asked whether they had heard of any recent changes in business conditions, favorable news items were mentioned only slightly more frequently in the third quarter 1981 (26 percent) than a year earlier (24 percent), while reports of unfavorable developments fell to 49 percent from 79 percent a year earlier. In comparison with last year, fewer respondents mentioned reports of spreading unemployment (33 to 17 percent), and fewer mentioned inflation (12 to 4 percent). The proportion of respondents that could not recall any recent changes in business conditions increased from one-third to one-half of all families during the past year. Consequently, the net improvement in the mix of news reaching consumers reflected fewer multiple mentions of unfavorable developments as well as an overall decline in awareness of any change, rather than a spreading awareness of positive developments.

Although the majority of all consumers continue to view the current business conditions as having worsened rather than improved during the past year, significant gains have been recorded since the 1980 low point. Among all families, 51 percent reported in the third quarter 1981 surveys that they thought business conditions had worsened during the past year, down from 53 percent in the second quarter, and 77 percent in the third quarter 1980 surveys. Similarly, the proportion that reported business conditions had improved rose from 15 percent in the third quarter 1980 to 31 percent in the third quarter 1981 during the past year.

Following the rapid improvement recorded from late 1979 into early 1980, the proportion that expected improvements in business conditions remained largely unchanged during the past year. In the third quarter 1981 surveys 34 percent held favorable, and 19 percent held unfavorable expectations for business conditions in the coming year. When asked to explain why they expected business conditions to improve or worsen, spontaneous favorable

references to the Reagan administration and government economic policies were made by 25 percent of all respondents in the third quarter 1981 surveys, down from 27 percent in the second quarter, and 33 percent in the first quarter 1981 surveys. Although the initial rapid improvement in business expectations can be attributed to significant declines in unfavorable references to inflation, the continued maintenance of business expectations at these improved levels has been largely due to favorable evaluations of government economic policies.

Confidence in government economic policy to combat inflation and unemployment remained at much improved levels in the third quarter 1981 surveys. Among all families, 30 percent favorably rated government economic policy, up somewhat from the 28 percent recorded in the second quarter, but greatly above the 9 percent recorded a year earlier. Unfavorable evaluations of government policy increased to 21 percent in third quarter 1981 surveys from 18 percent in the second quarter, but remained significantly below the 44 percent recorded in the third quarter 1980. Among families with incomes of $20,000 or more, 33 percent rated government economic policy favorably in both the second and third quarter 1981 surveys.

Among all families, 36 percent reported that they expected good times financially in the economy as a whole during the next 12 months, down from 39 percent in the second quarter 1981 surveys, but significantly above the 26 percent recorded a year earlier. Long term business expectations have remained largely unchanged since the start of 1981, following significant improvement in 1980. Among all families, 28 percent expected good times financially in the economy as a whole in the next five years, down from 32 percent in the second quarter, but above the 21 percent recorded a year earlier.

Expected trends in unemployment did not worsen during the past year, but they did not improve -- more of the same is expected. Among all families, 37 percent reported that they expected unemployment to increase during the year ahead, unchanged from the second quarter 1981 survey, and down from 46 percent in the third quarter 1980 surveys. The proportion that expected unemployment to decline fell slightly from 17 to 16 percent during the past year. Those that expected unemployment to remain at the same high current levels showed the greatest increase, rising from 35 to 45 percent in the past year.

Interest rate expectations have followed an especially volatile path during the past year. Interest rates were expected to increase by 36 percent of all respondents in the third quarter 1981 surveys, similar to the year earlier reading. Since the start of 1981, the proportion that expected interest rates to decline fell from 41 to 28 percent, while the proportion that expected interest rates to remain at their same high levels rose from 23 to 32 percent. As with unemployment expectations, high interest rates are expected to prevail.

Buying Attitudes Weaken

Attitudes toward buying conditions for houses again neared record low levels in the third quarter 1981 surveys. Among all families, just 19 percent reported favorable buying conditions for houses, down from 39 percent one year earlier. Among families with incomes of $20,000 or more, favorable attitudes fell from 48 to 19 percent during the past year, while unfavorable buying attitudes rose from 46 to 75 percent. Among high income families, this represents a record low level. The overwhelming reason given by consumers for these negative views was high interest rates and tight credit conditions, mentioned by 76 percent of all families (86 percent among

high income families). When interest rates temporarily declined in mid-1980, house buying attitudes grew rapidly, but were quickly reversed when interest rates again rose in late 1980 and 1981.

Unlike the pattern of improvement and subsequent decline in house buying attitudes, attitudes towards market conditions for cars and large household durables have remained at largely unchanged levels during the past year. Since the third quarter of 1980, the proportion that held favorable car buying attitudes in each quarter remained in the narrow range of 38 to 40 percent, while the proportion that held unfavorable attitudes varied from 47 to 52 percent. A similar flat pattern was also shown by high income families (with favorable ratings from 42 to 47 percent, and unfavorable from 42 to 49 percent). When asked to explain their views of buying conditions for vehicles, fewer respondents mentioned rebates or price discounts in 1981:3 compared with one quarter or one year earlier, and more respondents mentioned high interest rates. In the third quarter 1981 surveys, 27 percent of all families mentioned high interest rates and tight credit conditions, a new record level, exceeding the 25 percent recorded in both the first quarter 1981 surveys and the second quarter 1980 surveys.

Attitudes toward market conditions for household durables also remained largely unchanged during the past year. Among all families, favorable exceeded unfavorable attitudes by a margin of 51 to 34 percent in the third quarter 1981 surveys. During the past year, the proportion holding favorable attitudes varied in the narrow range of 47 to 51 percent, and among high income families the range was between 51 and 55 percent.

Two charts showing the buying conditions for autos with unit auto sales and buying conditions for housing and unit home sales are shown on page 12.

Summary Outlook

The third quarter 1981 surveys indicate that consumer attitudes and expectations have followed a divergent course during the past year. Lowered price expectations, a more optimistic outlook for the economy as a whole, and increased confidence in government economic policy stand in sharp contrast to widespread unfavorable buying attitudes, due to heightened concerns about high interest rates.

Growth in consumer sales during the balance of 1981 and early 1982 will continue to be slow and uneven. Sustained reductions in interest rates, as well as sustained increases in real disposable income are needed before large discretionary consumer purchases show robust growth. Saving rates can be expected to increase, both because of additions to financial savings and reserves, as well as because of increased debt repayments compared with debt incurrences.

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The third quarter 1981 survey contained 2,071 interviews, conducted between June 23 and September 20, 1981.

BUYING CONDITIONS FOR CARS AND TOTAL UNIT CAR SALES

BUYING CONDITIONS FOR HOUSES AND
TOTAL SINGLE-FAMILY HOME SALES